

Date: April 4, 2012

To: Thomas J. Bonfield, City Manager
Through: Theodore L. Voorhees, Deputy City Manager
From: Donald F. Greeley, Director, Water Management
Subject: Adoption of Proposed Water and Sewer Rates for FY 2012 - 2013

Executive Summary

The City Council first adopted a tiered rate structure for water volume charges applicable to single family residential customers in FY 2008 - 2009. The tiered rate structure continues to be effective in reinforcing the conservation ethic with customers. Fortunately, this change in customer behavior persists, with heightened awareness during extended dry periods. The City Council has approved modest rate increases over the past several years to cover increasing operating costs and debt service. The rate increases also support Durham's large capital program which focuses on replacement of our aging infrastructure and meeting new regulatory requirements and system growth. Staff approached this year's budget cycle with a desire to keep the adopted tiered rate structure in place, while refining costs to reflect not only the departmental needs – operational and capital – but the current economic climate and its impact on Durham's water and sewer customers. To meet these needs, the department proposes modest increases for the water and sewer service and volume charges for FY 2012 - 2013. The proposed rates continue the one penny per hundred cubic feet adopted last year dedicated to watershed protection efforts.

The administration recommends the proposed rates be adopted effective July 1, 2012, with implementation for bills issued on or after August 1, 2012.

Recommendation

The department recommends that City Council adopt an ordinance to change rates for water and sewer service, Section 1, Part 15-104 of the City's fee schedule, effective July 1, 2012. Rates shall be applied to all bills rendered after August 1, 2012.

Background

During FY 2008 - 2009 budget preparation cycle, Department of Water Management staff worked closely with Raftelis Financial Consulting, Inc. (RFC) to develop a tiered rate structure for water consumption. RFC recommended that the tiered structure be applied to individually- metered residential customers because this group comprises the bulk of seasonal elective water use, such as irrigation and car washing. RFC noted that in future years the City could evaluate a tiered structure for non-residential customers. The rate structure recommended by RFC contained five tiers for single-family residential water users, set rates

for all non-residential customers at Tier 3 and set rates for all irrigation-only customers at Tier 5. RFC also proposed increases in both water and sewer service charges to more accurately reflect the fixed costs of water treatment and delivery and wastewater collection and treatment while keeping up with inflation. Service charges had not been adequately increased in prior years so large increases were needed to provide necessary funding to cover the fixed costs, i.e. the cost of doing business regardless of the amount of water used by a customer. Based on information used to run the rate model, staff anticipated that service charge increases in following years would be very modest, but would need to be consistently increased to maintain appropriate funding of fixed costs of providing services.

In following years, the City Council has continued to support the tiered rate structure and has approved moderate increases in water and sewer service and volume charges. For FY 2011 - 2012, Council approved increasing the water rates in Tiers 1 – 5 by one penny, dedicating additional funds to watershed protection in support of regional efforts.

For FY 2012 - 13, staff recommends modest increases in water and sewer service charges and volume rates resulting in an approximate 2.6% overall increase in water/sewer bills for inside City customers. This level of funding will meet increasing operational expenses and identified capital improvements while maintaining prudent reserves. Significant capital improvements to water reclamation facilities to address requirements of the Falls Lake and Jordan Lake rules are planned in several phases over a 20-year planning horizon.

The tiered rate structure has been an effective means of encouraging a water efficiency ethic among customers despite variation in rainfall and levels of water supply lakes. Additionally, the 2008 drought legislation promotes the utilization of tier rate structures in North Carolina cities and utilities. Staff approached this year's budget cycle with the intent to keep the established tiered rate structure in place, while refining the rates within the structure to reflect not only the departmental needs – operational and capital – but the current economic climate and its impact on Durham's water and sewer customers. The proposed rates, developed with the assistance of RFC, continue the one penny per hundred cubic feet adopted last year to be dedicated to watershed protection efforts.

The administration recommends the proposed rates be adopted at the May 7, 2012 Council meeting to become effective July 1, 2012 and applied to all bills rendered on and after August 1, 2012.

Issues and Analysis

The proposed rates for individually metered single family residential accounts inside the City are shown in the table. Staff recommends continuing to bill all non-residential customers (multi-family, industrial, commercial and institutional) at the Tier 3 rate and all irrigation-only customers at the Tier 5 rate. Moderate increases are recommended for water and sewer volume charges to cover increasing operating costs due to nutrient removal requirements.

The proposed rates support the FY 2012 - 2013 water and sewer operating costs, capital needs and debt service. The recommended minimum debt coverage ratio is forecast to be met or exceeded with the proposed rates.

The rates for outside-City customers would continue at two times the inside the City rates, as per current policy.

	FY 12 Rates	FY 13 Rates
<u>Monthly Water Rates (inside)</u>		
Service Charge	\$5.56	\$5.77
Volume Charge - Tiered Rates (per 100 cubic foot - ccf)		
Tier 1 (0 - 2 ccf)	\$1.73	\$1.74
Tier 2 (>2 - 5 ccf)	\$2.60	\$2.62
Tier 3 (>5 - 8 ccf)	\$2.85	\$2.87
Tier 4 (>8 - 15 ccf)	\$3.72	\$3.75
Tier 5 (>15 ccf)	\$5.57	\$5.62
<u>Monthly Sewer Rates (inside)</u>		
Service Charge	\$6.49	\$6.73
Volume Charge (per ccf)	\$3.56	\$3.67

Alternatives

Alternative 1: Do not raise rates. The water and sewer operating costs will be covered with existing rates; however, many of the capital needs will not be funded. A number of the capital needs are regulatory-driven and failure to fund these projects will expose the City to risk of noncompliance in numerous areas. The City may also be subject to fines from the State within 1 to 2 budget cycles if projects are not completed and facilities are not on line by imposed deadlines. The City Council's approach over the past several years has been the approval of consistent, reasonable rate increases designed to minimize the shock of sporadic rate spikes; these programmed increases are necessary to meet capital funding needs within the 5 year planning horizon. The strategy of not adopting a rate increase this year would be inconsistent with the Council's approach, the City's needs and the City's desire to support increased and enhanced regional watershed protection efforts. Moreover, making up any postponed revenue by larger rate increases in the future could have an unnecessarily severe impact on customers.

Financial Impact

The proposed rates support the FY 2012 - 2013 water and sewer operating costs, capital needs and debt service. The targeted debt coverage ratio is met with the proposed rates.

SDBE Summary

No contracting is proposed, so the Ordinance to Promote Equal Opportunity in City Contracting is not applicable to this item.

Attachments

Ordinance to Change Rates for Water and Sewer Service
Presentation